

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Second Quarter of 2008 through the Fourth Quarter of 2011

The outlook for Idaho's economy has been scaled back to reflect more current Idaho historical data and the revised national forecast. A review of new employment data shows the state's economy grew slower during the first part of this year than had been anticipated in April 2008. It was previously projected that nonfarm employment would drop at a 0.3% annual pace in this year's first quarter and grow at a 0.9% clip in the second quarter. Newer job data show employment performed worse than this meager forecast. Namely, nonfarm employment fell at a 2.2% rate in the first quarter and dropped by 0.4% in the second quarter of 2008. As a result of this change, the starting point for the Gem State's employment forecast has been lowered from the previous forecast's 659,800 jobs to 654,595 jobs in the current forecast.

A major feature of the U.S. economic projection used in the preceding forecast was a recession in the first half of this year. This mild slowdown was expected to start in the first quarter of 2008 and end in its second quarter. From its peak to trough, real output was projected to decline just 0.2%. The current forecast also contains a recession. However, instead of starting at the beginning of this year, it occurs at the end of 2008. Specifically, this two-quarter downturn starts in this year's fourth quarter and causes real GDP to shrink 0.6%.

The combination of the lower starting point for the Idaho employment forecast and weaker near-term U.S. economic growth does not bode well for the local economy. Under these conditions Idaho nonfarm employment is expected to expand 1.3% annually over the forecast period, with the first two years being particularly weak. In comparison, nonfarm employment was forecast to increase 1.9% per year in the previous forecast. As a result of the slower growth, there are about 17,500 fewer jobs in 2011 in the current forecast than in the previous one. The goods-producing sector is hit twice as hard as total employment. Due to the much lower construction employment forecast, goods-producing employment is down 5.2% from the previous forecast in 2011. Total Idaho nonfarm employment is down 2.5% in that same year and nongoods-producing employment is off 2.3%.

Idaho nominal personal income also falls victim to the weaker economy. It grows slower than had been previously forecasted in each year of the forecast. As a result, the gap between the current and previous forecast widens over time, so that by 2011 Idaho nominal personal income is \$645 million lower than in the previous forecast. Because inflation is higher in the current forecast, the difference between the current and previous measures of Idaho real personal income in 2011 is even more pronounced.

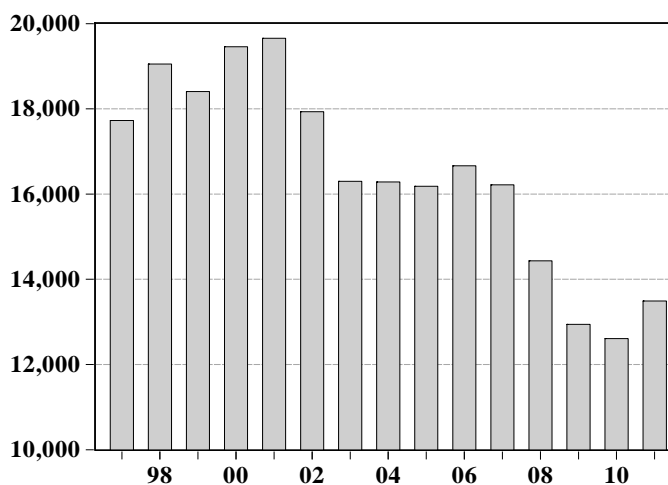
In summary, the next couple of years will be the most challenging in decades for the state's economy. Both Idaho nonfarm employment and nominal personal income are forecast to advance less than one percent over this period. Both should recover beginning in 2010. Over the last two years of the forecast nonfarm employment should expand a total of 4.7%. Idaho real personal income is expected to increase 9.6% over this same period.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: Gem State computer and electronics employment is forecast to continue shrinking over the next three years as the state's companies weather the current dip in the global high-tech business cycle. This downturn is due in large part to weak prices caused by the glut of computer memory products. Hardest hit has been Micron Technology. This company is the state's largest private employer and one of the world's largest manufacturers of memory products. In 2007, the company reduced its payroll by 1,100 workers in Idaho in an effort to reduce its production costs and improve profitability. Unfortunately, prices have continued falling since then, and the company's bottom line has not

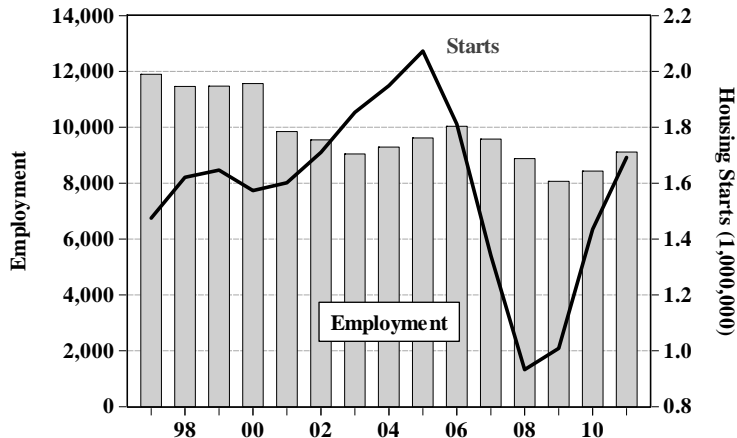
yet returned to black ink. For its most recent quarter of its 2008 fiscal year, which ended May 29, 2008, Micron lost \$236 million. In addition, its stock is trading at near record low prices. However, a close look at the company's financials shows things may not be as bad. First, sales of both its DRAM and NAND Flash products rose in the most recent quarter. Second, the company lowered its costs of goods sold per gigabit for both these products in the third quarter. Third, the company's gross margin was \$48 million—the largest of the fiscal year. The company also reported its sales and gross margin for its CMOS image sensors improved in the third quarter of its fiscal year. Unfortunately, several factors suggest several hurdles remain in this sector's road to recovery. The worldwide imbalance of supply and demand that has depressed prices is not expected to right itself quickly. In addition, this sector will be hamstrung by relatively lackluster U.S. business investment. This sector received another setback when ON Semiconductor announced it was reducing employment at its newly acquired AMI Semiconductor plant in Pocatello by about 200 jobs over the next 18 to 24 months. Growth in the state's high-tech sector will eventually return as new types of manufacturers join existing manufacturers. For example, Nordic Windpower, Limited, a wind turbine manufacturer, plans to hire 160 workers for its new Pocatello plant. In addition, Hoku Scientific is building a \$400 million plant in the same city that is nearly twice as large as had been originally planned to accommodate stronger-than-anticipated demand for the polysilicon it produces. According to the *Honolulu Star Bulletin*, the company has signed a contract worth up to \$298 million to supply polysilicon, a key material in making solar panels, to Jiangxi Kinko Energy Co. Ltd., a China-based manufacturer of silicon products. This deal has filled Hoku's expected 3,500 metric tons of annual capacity. On an annual basis, Idaho computer and electronics employment is forecast to drop 11.0% this year, 10.3% next year, 2.6% in 2010, and increase 7.0% in 2011.

Idaho Computer and Electronic Products Employment



Logging and Wood Products: Idaho's logging and wood sector's declining employment trend was interrupted mid-decade thanks to the red-hot housing market. Specifically, its employment went from a peak of about 12,000 jobs in 1996 to a trough of under 9,100 jobs in 2003. These declines were not the result of soft demand but of ongoing, unfavorable supply factors. Idaho's lumber and wood products sector faces the dwindling timber supply from public forests. According to U.S. Forest Service estimates, the harvest from Idaho national forests fell by 74% from 1996 to 2005. As a result, the

Idaho Wood Product Employment and U.S. Housing Starts

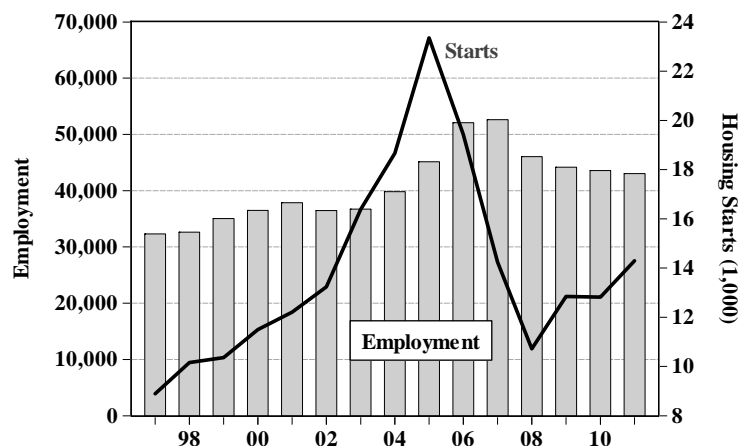


national forests' share of Idaho's timber harvest shrank from 23.9% in 1996 to 8.4% in 2005. This decline resulted in the closure of several older mills around the state. Ironically, these closures help increase the industry's efficiency, which put further downward pressure on employment. The industry does not need as many employees as it has in the past. For example, production was virtually the same in both years even though employment was 16.5% lower in 2006 than it was in 1996. Despite the industry's downsizing, excess capacity remains a challenge. It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North

America. The pressure from these factors on this industry will increase as they fill the void left by the retreating demand fueled by the housing crises. Unfortunately, there is ample evidence this is taking place. Stimson Lumber closed its DeArmond Mill. It had originally planned to shutter the plant in 2009, but low lumber prices forced the company to close it sooner. Three Rivers Timber in Kamiah recently cut its staff by 35 persons. Despite this job contraction, the mills output is expected to remain steady at about 80 million to 90 million board feet per year. Idaho is not the only area suffering; the entire inland region has fallen on hard times. The June 2008 edition of *Random Lengths Yardstick* included a couple of statistics that illustrate this point. First, there are about half as many mills in the inland region as there were twenty years ago. Second, the inland region's share of North American (U.S. and Canada) production has dwindled from 18% to 8%. These facts do not bode well for this sector's health. As the housing sector retreats, so will Idaho lumber and wood products employment. Specifically, it is expected to decline 7.3% this year and 9.1% next year. Later in the forecast period, employment is forecast to post a modest rally, so that by 2011 there are 9,116 jobs in this sector.

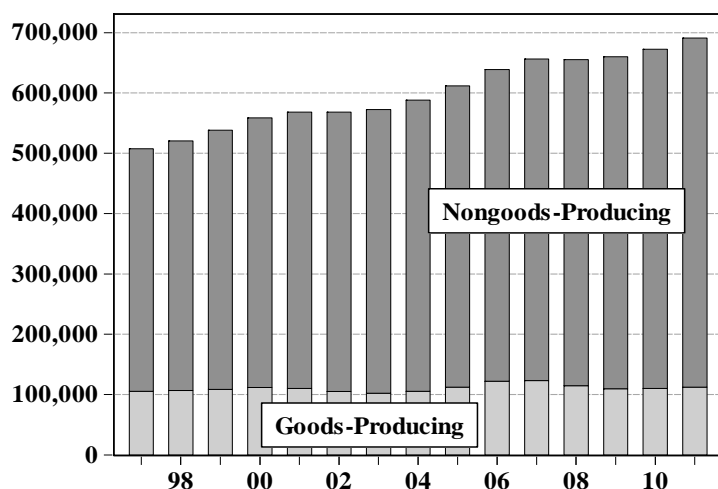
Construction: Idaho construction employment is expected to decline throughout the forecast period as the dust from the state's housing sector decline settles. The jobs will be sorely missed, as construction was one of Idaho's growth industries in recent years. Idaho construction employment enjoyed several quarters of double-digit growth that culminated with a peak of 53,552 jobs in the first quarter of 2007. What this figure does not capture is how long construction has contributed to the state's growth. Remarkably, Idaho construction employment has increased in 15 of the 16 years since 1991—the most consistent showing among the state's goods-producing sectors. During this period the construction payroll exploded from 20,350 to 52,634, which is a 6.1% average annual growth rate—about twice as fast as the state's total nonfarm job growth

Idaho Construction Employment and Housing Starts



rate of 3.2%. This strong job expansion was fueled by the housing surge caused by the state's fast growing population. Idaho housing starts increased from about 6,600 units in 1991 to a high of about 23,400 units in 2005. Although housing starts declined by about 3,200 units the next year, construction employment continued to grow thanks to strong nonresidential building in 2006. The number of housing starts fell another 5,200 units in 2007, and this year employment also declined. Housing is expected to fall further this year to about 10,700 units and construction employment should retreat to about 46,100 jobs. This year marks the low watermark for housing starts. After 2008, housing starts should rise to about 12,800 units next year and remain there through 2010. Housing starts should recover further in 2011 to 14,300 units. Unfortunately, Idaho construction employment will take longer to recover. Specifically, this forecast shows there are 44,204 jobs in 2009, 43,569 jobs in 2010, and 43,028 in 2011.

Idaho Nonfarm Employment



Nongoods-Producing Industries: The current forecasts for the state's services and trade sectors have been scaled down from their April 2008 counterparts. In the previous forecast Idaho services employment was projected to expand an average of 3.1% annually over the forecast period. It grows just 2.4% per year in the current forecast. As a result of this slower growth, total services employment in 2011 is down by 8,000 compared to the previous forecast. It should be noted that there were three significant changes in the first quarter of this year that deserve an explanation. First, the quarterly data show professional and business services employment

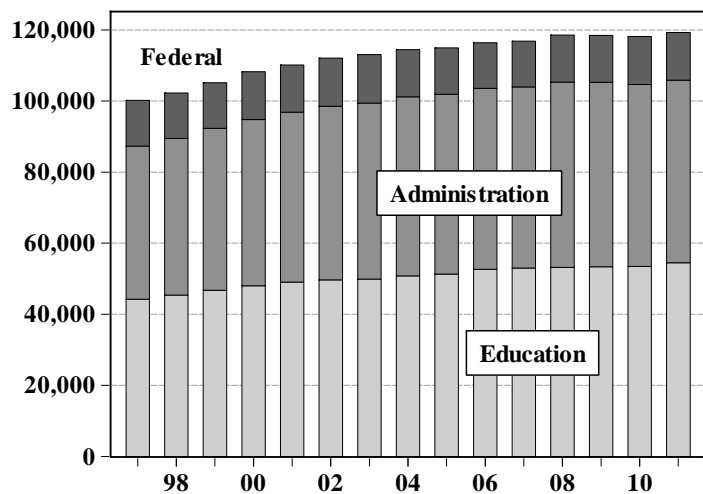
dropped at a 12.4% annual rate. This decline reflects reductions by employment agencies, companies providing building services, and call centers. Coincidentally, a large part of this drop was made up by hiring at private universities that helped education- and health-related employment to surge at a 9.1% annual clip in the first quarter. Last, other services employment sprinted at a nearly 25% pace due to a new employment survey that revealed there were more noncovered jobs in this sector than had been previously reported. This new data creates a series break that results in a one-time boost to the first quarter's growth rate. Leisure and hospitality employment was flat in the first half of this year, even though the state enjoyed the best winter conditions in several years. This decline may have resulted from reduced consumer spending because of worries over the economy's direction as well as high transportation costs. These two factors probably contributed to the retail sector's disappointing performance in the first half of this year. In April it was anticipated this sector's employment would grow about 2.5% per quarter. It was flat instead. Wholesale trade employment actually shrank in the first quarter. Even after posting a meager rally in the next quarter, it was still about 500 jobs lower than had been forecasted earlier. Total trade employment is forecast to rise 2.8% annually, which is down from the 3.3% expected pace in the April 2008 forecast.

Government: The anticipated slower population growth will cool Idaho public job growth over the next few years. The Gem State's population growth peaked at 2.7% in 2005 thanks to an influx of new residents. That year marked the first time since 1995 that net migration topped 20,000 persons. It remained above this threshold for the next two years, causing the state's population to rise 2.6% in 2006 and 2.5% in 2007. However, migration is expected to drop below 20,000 persons this year. Absent the

strong migration, Idaho's population advances about 1.8% annually. History suggests Idaho state and local employment prospects will be dampened by the slower population growth. The demands of the growing population put pressure on existing government resources, so government employment expands to meet this demand. If population growth slows, so does government employment. From 1991 to 2000, Idaho's population increased about 2.5% per year. Over this same period, Idaho state and local government expanded 3.0% annually. The state's population growth slowed to a 1.7% annual pace from 1999 to 2004.

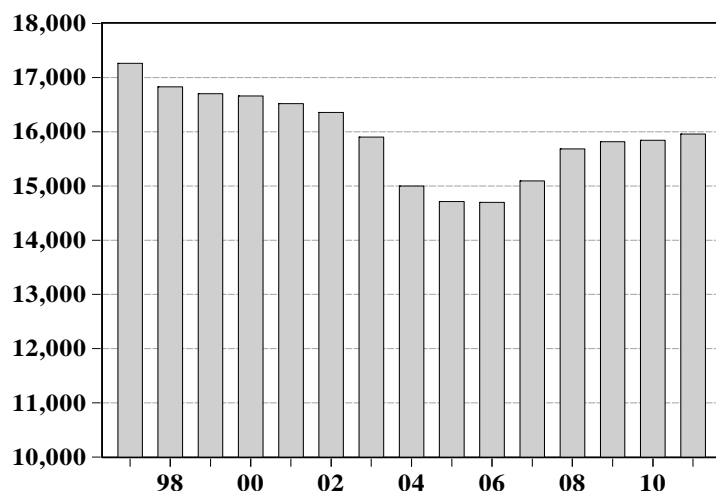
State and local government employment growth followed suit, slowing to an average 1.9% annual pace. Given the slower population growth, Idaho state and local government employment is projected to increase about 0.5% annually over this period. However, growth rates vary widely between the education- and noneducation-related components. Idaho education employment is expected to advance about 0.7% per year from 2007 to 2011. During this same period, noneducation-related government employment should expand just over 0.2% annually. Federal government employment in Idaho has hovered near 13,000 jobs over the last few years, and it is projected to continue doing so over most of the forecast horizon. However, it should rise above 13,500 jobs in 2010, the result of local hiring for the 2010 census.

Idaho Government Employment



Mining: Idaho's mining sector is expected to extend its current job-growth streak by expanding another 8.1% this year. This expansion is being fueled by high metal prices that have increased payrolls from just under 1,800 jobs in 2002 to a forecasted 2,885 jobs in 2008. Companies adding workers include such Silver Valley icons as Sunshine, Lucky Friday, and Galena mines. Kathryn Tacke, the Idaho Department of Labor's Regional Economist for North Idaho reported that prices of lead and zinc are so high that the Lucky Friday Mine could make a profit on sales of these two byproducts alone. However, the ore also contains silver, which has been selling for prices north of \$17 per ounce recently. These high prices have increased exploration activity in the state. U.S. Silver is exploring the potential of the Calladay project near its Galena Mine, the Dayrock lead-zinc mine, and the Gem State property near the Golconda District. The company has found multiple veins at the 2,400-foot level that may contain high-grade ore. The company is also examining the possibility of reactivating Coeur Mine to access some of the mineralized zones left when it closed in 1998. Other companies are also active in the Silver Valley. New Jersey Mining Company plans to spend over \$1.7 million to explore gold, silver, and copper properties in Shoshone County. SNS Silver is looking at the possibility of bringing the Crescent Mine near Kellogg back into production. The Crescent, which closed in the 1980s, lies between two of the world's greatest silver producers—the Sunshine and Bunker Hill mines. It appears there are ample mineral supplies for further expansion. For example, the 65-year old Lucky Friday Mine has more silver in reserve than has been mined over the years and could be expanded for decades. But this sector's short-term fortunes will be driven more by economics than by geology. The expected cooling of the national economy suggests demand for metals should slow, and this will dampen the state's mining employment outlook. However, the retreat from current levels should be modest. Specifically, Idaho mining employment is forecast to drop to 2,715 jobs in 2009 and fall to 2,654 jobs in 2010 and remain near that level in 2011.

Idaho Food Processing Employment



Food Processing: Idaho's food processing sector recently took its first step towards reclaiming its title as the state's largest manufacturing employer. Prior to 1997, this sector employed more workers than any other manufacturing sector. However, it ceded this title in 1997 when it was overtaken by the high-tech. The next year marked the first in what was to be a series of annual food processing employment losses. As a result, this sector was not in position to make a run for the championship until recently. Its fortunes began improving as new companies arrived on the scene, in some cases replacing companies that had been shut down. For example, the former

Swift and Company beef processing plant has been reopened by XL Foods, Inc. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years. Another new plant is High Desert Milk in Burley. When completed, this plant will employ 30 workers to manufacture powdered milk. Idaho Milk Products broke ground on a 180,000-square-foot facility in Jerome in late October. Once operational, the plant will process about 3 million gallons of milk per day into protein powders, lactose permeate, and cream. This recovery is important because food processing is an essential part of the Gem State's economy. This sector had 14,700 jobs in 2006, making it the state's second largest manufacturing employer. Idaho food processing employment is forecast to rise 3.9% this year, which will help it regain its title as the state's largest manufacturing employer. It will retain this top spot by increasing its payroll by 0.8% next year, 0.2% in 2010, and 0.7% in 2011. Other measures also point to this sector's importance. The real value of food manufacturing output accounted for more than half (55.6%) of the total Idaho nondurable manufacturing output from 1997 to 2006 and about 2.4% of the state's total gross domestic product.